RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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THE BUSH SPEECH: Russell opinion: a mish-mash of quick-fix ideas, most of which won't be passed by Congress. The big fundamental that neither Bush nor any other politician will address -- the US government continues to spend 50% more than it takes in.

COMING SURPRISE? Mario Cuomo, drafted by the Democrats, finally agrees to run "for the good of country and party."

WHOA! The old Wall Street adage warns that "All facts are history." And, of course, that's true, but it won't hurt us to go over a little of the history of facts. For instance, it's a fact that the most reliable identifier of market tops or bottoms over the decades has been the level of **values.** True, there are a lot of other characteristics of tops and bottoms that usually (but not always) appear, but the most reliable has been a consideration of values.

We know that whenever the yield on the Dow drops to or below 3% the Dow is on thin ice -- in a top area. We know that whenever the yield on the Dow rises to 6% or more, the Dow is moving into the bargain area, the zone that has always been identified with bottoms.

In view of the above, I was frankly startled by the latest statistics from *Barron's*. Here they are. Last week *Barron's* showed the combined earnings for the 30 D-J Industrial stocks to be **$64.83.** That's **down a shocking 68%** from the $202.63 earnings of a year ago.

Furthermore, the dividends on the combined 30 Dow stocks are now 90.78, down 12.1% from the 103.29 dividends of a year ago. And the yield on the Dow is now a miniscule **2.80%,** well below the historical danger level of 3%. Just as ominous, the dividends on the D-J Industrial Average are now a third more than total Dow earnings! Obviously, something's got to give -- earnings must boom or dividend cuts lie ahead.

What about the price/earnings ratio for the Dow? With earnings of only 64.83, the P/E for the Dow is now a shocking **50.0.** Furthermore, eight of the 30 Dow stocks showed negative earnings (losses) for the latest quarter. So all in all, I'd have to term this one of the most overvalued markets I've ever seen.

As for the Transports, this Average shows combined earnings for its 15 stocks of negative 19.81, meaning that the P/E ratio for the Transports is infinity. The yield on the Transportation Average is a tiny 1.41%.

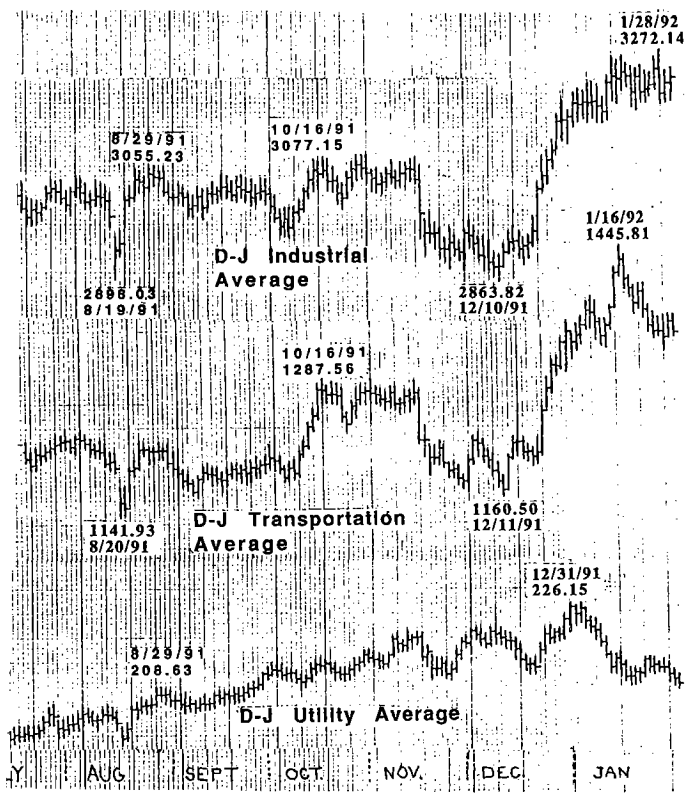
What the devil is going on? (1) For one thing, it's clear that the public and the institutions have been squeezed out of the normally higher-yielding money markets and bond markets. So the idea is to "make up for loss of interest income" by reaping profits in the boiling stock market. And the money's been pouring into the stock market in unheard of amounts. (2) It's just as clear that the public and the institutions believe that this "recession" will be pretty much like all previous recessions in one critical respect -- it will end. And when the recession ends, earnings will turn up again as they always have. So why not buy stocks and get in early? Why not jump the gun and be ready for the time when earnings boom again?

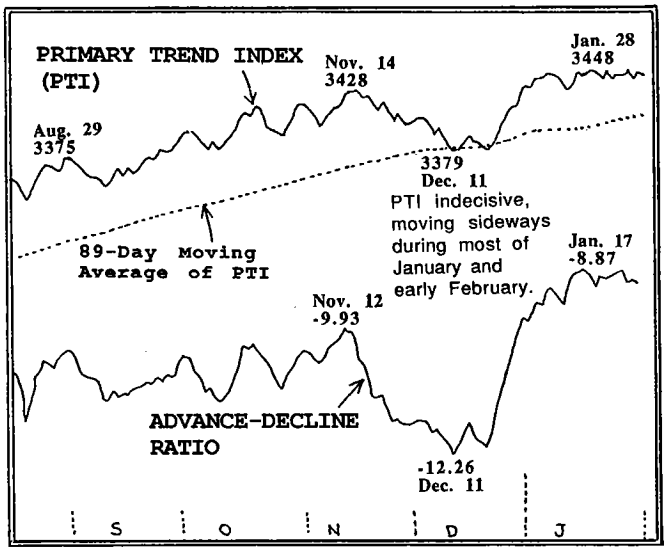
Jan. 24 DJIA 3232.78; PTI 3442; A-D Ratio -9.02
Jan. 31 DJIA 3223.39; PTI 3442; A-D Ratio -9.20
Dow Yield: 2.80%; Dow P/E: 50.0; DowPow: 168
Dow 200-day MA: 3008; Dow 30-day MA: 3168
Dow Times Book Value: 2.42; PTI 89-day MA: 3411
Percentage of Undervalued Blue-chips: 8%

Consequently, everyone and his brother is rushing into stocks, and equities have been bid up to levels of wild overvaluation. What happens now? Now investors wait. They wait for the upturn in the economy that will validate their paying sky-high prices for stocks. How long will investors wait? When will the upturn come? What if it doesn't come, or what if the recession drags on -- or worse, what if the recession deepens?

And finally, what if history repeats itself, and the current 2.80% yield on the Dow signals the area of the final bull market top (regardless of what lies ahead in the economy)? Ah, these are the questions that make the study of the stock market so fascinating -- and frustrating. Is there any other business where so many people labor so hard for the elusive, maddening, trillion-dollar answer to the trillion-dollar question?

So the market game goes on. And one of the most overvalued markets in history (1) remains overvalued, (2) remains highly speculative, (3) trades off the lowest interest rates in 20 years -- as it waits for the long-overdue upturn in the economy. Meanwhile, the public (mainly through mutual funds) piles headlong into the market at the rate of almost two billion dollars a week. Item: the *Financial Group* of mutual funds has increased the number of its telephone operators from 35 last July to a current 140. Their phone lines are jammed. Item: "Strategists at big brokerage houses are recommending the biggest commitment to common stocks on record" (*WSJ,* Jan. 28).





THE MARKET: Should we "trust the thrust"? Sometimes, what the market fails to do is as important as what the market does do. With that thought in mind, let's turn to the recent and current market action. During the December 11 to early January period, the market exploded upward, and "momentum stilts" were formed in almost all the indices and averages. You can see this phenomenon plainly on the page 1 chart of the Averages -- stilt formations show in both the D-J Industrial and Transportation Averages.

The expected action following a stilt formation is a short period of consolidation or digestion, and then a further powerful rise.

Working from a different direction, Joe Granville (who has been excellent in calling the shots on this market) refers to the recent "unbroken stretch of eleven consecutive advances in the Dow." Comments Joe -- this has only happened four times in market history. Without exception, the Dow went up a minimum of 10% in the next three months following each of those unbroken Dow runs. "So that," says Joe, "calls for at least 300 more points on this rally." Consequently, Joseph is predicting "Dow 3600 within 90 days." And as I said, Joe's been very good.

So this is my point: the technical expectations have been calling for a further advance, this based on both the eleven consecutive days of Dow advance and also based on the "momentum spike" traced out by the Dow and other averages.

But what if the "further advance" doesn't occur? What if the market fizzles out here -- then what? If that happens, we will be experiencing a technical failure, and a technical failure can be very important -- as important as a technical success.

In the last Letter I wrote that the stock market was at an important juncture. Why so important? Because the market is now extremely overvalued, and if the market follows Joe Granville's scenario (i.e, the Dow up another 300 points) then the Dow will be at overvalued levels never seen before.

DOW THEORY: The recent high for the D-J Transportation Average was recorded on January 16 at **1451.81.** The all-time high for the D-J Industrial Average was recorded on January 28 at **3272.14.** However, almost unnoticed, the Transports dropped almost 100 points before rallying mildly. The January 28 Industrial high was not confirmed by the Transports, and this sets up a situation which must be treated with caution. High level non-confirmations in overvalued markets are always a cause for concern.

In the meantime, the Utility Average recorded its own high back on December 31 at **226.15.** Since the Utilities often move ahead of the rest of the market (but usually with a long lead time) this is another area worth watching.

PRIMARY TREND INDEX & ADVANCE-DECLINE RATIO: Despite the non-confirmations, my PTI has been advancing to new all-time highs, and this represents an important plus. A rising PTI indicates rising technical pressure under the market. A market can churn and even appear ragged in the face of a rising PTI, but the market will not fall apart while the PTI is in a rising trend.

DOUBLE-DIGIT DECLINES: "What goes around, comes around." I believe in the law of averages, and that law can be applied to the stock market. Charles Allmon (*Growth Stock Outlook,* PO Box 15381, Chevy Chase, MD 20825) offers an important long-term observation. He notes that in every decade since the 1930s there has been at least one year in which the Dow has suffered a double-digit decline. Here's the record of all double-digit decline years. In the year 1930, the Dow declined by 33.8%. The year 1931, the Dow declined by 52.7%. The year 1932, the Dow declined by 23.1%. The year 1937, the Dow declined by 32.8%. The year 1940, the Dow declined by 12.7%. The year 1941, the Dow declined by 15.4%, in 1957 the Dow declined 12.8%, in 1966 the Dow declined 15.2%, in 1969 the Dow declined 15.2%, in 1973 the Dow declined 16.6%, in 1974 the Dow declined 27.6%, in 1977 the Dow declined 17.3%.

Now the interesting part is that there were no double-digit Dow declines during the 1980s, nor did 1990 or 1991 produce a double-digit decline. Question -- how long can the market go against the odds? It's been 15 years since the last double-digit decline year. The previous longest span between double-digit decline years was the 17 years between 1941 and 1957. But the market made up for that by producing three double-digit decline years during the 1960s.

Russell conclusion: My guess is that we will experience two or maybe three double-digit decline years during the 1990s. What goes around, comes around. It doesn't pay to ignore the law of averages -- especially now with the Dow selling at 50 times earnings.

Comment: Some analysts are saying that based on low interest rates and low inflation, the market is still cheap regardless of stock yields or price/earnings ratios. I believe that this is another way of saying that "this time it's different." The fact is that historically anytime the Dow was yielding less than 3% the market was on dangerous ground. Average levels of dividends are a measure of market value, regardless of prevailing interest rates.

INVESTMENT POSITION: The bull's in the box, but he's having a lot of trouble breathing. The reason is that he's living in the rarefied air of a 2.80% yield on the Dow. The bull knows that this kind of Dow yield has always, in the past, meant trouble in the form of a bull market top. But heck, none of the other bulls (or cows or calves) are worried, so why should he worry?

Besides, the PTI is hitting new highs, and the PTI isn't based on yields, values or the level of the Dow. It's based strictly on a balance of "action-of-the-market" indicators and indices. The Russell position: I continue to sit with a limited position in closed-end funds (TY, SBF, GAM), with the rest of my assets in money market funds and muni money market funds plus a few government notes and a few muni bonds. But basically, I'm in a defensive position. I feel the minuscule yield on the Dow and the S&P 500 are smouldering danger signals. Yeah, that 2.80% yield and 50 P/E ratio on the Dow give me the creeps.

COLLECTORS: I've known Jimmy Blanchard of New Orleans for 18 years, and I've spoken at 16 of 18 of the famous Blanchard seminars. Blanchard, like this writer, is an inveterate collector. In fact, I'd say that Jim and I both come under the category of

"collecting nuts," and over the years we've often discussed our latest collecting mania. With me it's been stamps, gems, pistols, jazz recordings, motorcycles, Cacti (that's right, Cactus plants), and I guess kids (I've got five of them). Blanchard has collected (these are only the things I know about) coins, stamps, civil war items, books, swords, autographs.

I spoke to Jim a few months ago, and the items he's been hot on for the last few years are autographs, antique manuscripts, newspapers and books. James has always had a real feel for what's on the bargain table, and the above, Jim believes, are vastly underpriced in today's market. In fact, Jim is offering various items for sale as well as publishing a fascinating journal called *Archives of Our Heritage*. If you want to know more about what Jim is doing and what he thinks is worth collecting call (800) 877-8847. As usual, I get nothing out of this except (if I'm lucky) maybe a free subscription to the **Archives.**

INFORMATION: We live in a new global world, and for me that means two things: (1) life is much more interesting, and (2) I've got to read a heck of a lot more. For subscribers who want to keep informed regarding what's happening in today's fast-moving world, I want to recommend a few publications that I find particularly valuable. The first is **The Economist** out of London. Each week this magazine is loaded with a carload of information, much of it (I don't know how they do it) fascinating. The accent is on the world's finances and business, but there's much, much more (PO Box 50400, Boulder, CO 80321-0400). Second is that great little newspaper, **The International Herald Tribune** (published jointly by the *NY Times* and the *Washington Post).* This is a great joint effort, packed daily with a slew of news from around the world. This paper, by the way, is one of the few in the nation that is increasing its circulation -- and they deserve it [(800)-882 2884]. Japan is taking over the world, so you might as well find out what those guys are up to next. The way to do it is to read **The Nikkei Weekly,** printed in LA, Tokyo and Holland ($59 for six months -- OCS America, Att: Nikkei Weekly). Next is a particular favorite of mine, the **Christian Science Monitor.** This is a well written, extremely interesting publication which daily provides a great deal of world news, interpretations and insights -- and hey, no advertising [$144 a year -- (800) 456-2220].

NOTES & QUOTES: Bethlehem Steel, our second biggest steel maker, just omitted its dividend and announced that it will be firing 6,500 people or 25% of its work force. The spotlight on "Bessie" brought back memories. In 1957 Bessie had 157,000 workers; it now has 20,000. Back in the 1950s the steel industry was the backbone of American manufacturing. The market adage stated, "As steel goes, so goes the nation." I'll never forget following the severe 1957 stock market reaction, when the market finally turned up in late '57, it was the steels that lead the rise. I've never seen anything like that 1957-58 steel action, before or since. Day after day the tape was painted with steels, and Bessie (which split four for one) was all over the screen. Lots of 5,000, 10,000, 50,000 BS appeared in trade after trade as market veterans stood up on the chairs and clapped and cheered. They knew that with steels leading the parade, a big bull market was underway. And were they ever right. That explosive steel move was a sight I've never forgotten. And what a long way that was from what's left of America's steel industry today.

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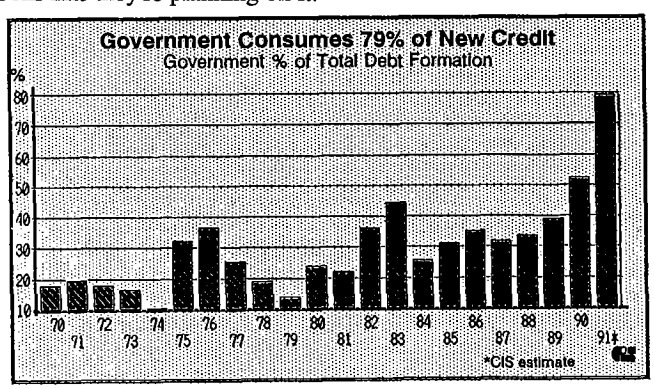
Daniel Yankelovich (who is my age, 67) is known as the dean of public opinion pollsters. *Fortune* (Feb. 10) quotes him as follows: "People's jobs and homes are their main bastion of economic security, and the idea that both would be at risk is frightening, particularly for the generation that is younger than mine. Now they're getting a double whammy. Instead of the value of their homes going up, it's going down. Their debt becomes a nightmare. Then, everyone knows someone who has lost his job. In restructurings, the people who are laid off won't be laid back on again . . . By putting the spouse to work, borrowing money, and piling up government debt during the '80s, we were masking the reality that we were failing to do better. And while we were having our binge, we were slipping behind the Japanese in hard work and quality. Now we have millions of people living at the limit. They have no margin, no cushion. In my generation we had the phrase, 'save for a rainy day.' This is the rainy day, and we haven't saved for it. This generation believed it wouldn't ever rain again."

* *

President Bush says that he wants a balanced budget amendment to the Constitution. Who's he kidding -- why doesn't he present a balanced budget of his own instead of that latest trillion-and-a-half monstrosity (Bush hasn't presented a balanced budget since he's been in office)?!

The final budget deficit for 1991 was more than two-and-a-half times the original estimate. The problem was faulty estimates by the Budget Office. In January 1990 Bush estimated the deficit would be $100.5 billion. It seems that the culprit was the recession, in which every category except excise taxes fell short of expectations. Government income was $102.1 billion less than predicted and spending was $66.2 billion higher than predicted. Of course, even here the government is lying to us because the actual fact is that the government has added $406 billion to the total federal debt over the last 12 months, and that $406 billion is the real, honest to God, deficit. Real deficit for 1992 -- probably near $500 billion.

According to the *National Taxpayers Union* the cost of servicing the federal debt in '92 will top $304 billion. That means that 57 cents out of every dollar collected by the federal government in taxes will go to paying the interest on the federal debt. This is an interesting chart put out by *Commodity Information Systems* (211 N. Robinson, Oklahoma City, OK 73102). Here we see that the federal government is now consuming 79% of all new debt formation, while state and local governments are also taking an increasing share. Some economists feel that the government will have to cut back drastically on its credit demands before this economy can turn up. But will government cut back? It hardly looks like they're planning on it.



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Saddam Hussein is becoming a critical election issue, and the Dems are using it. Saddam will "be toppled" promises Defense Secretary Dick Cheney. And the rumor is that the frantic Bush administration is planning something very bad for Saddam. What could it be? Who knows, but whatever it is, it should probably happen before election time. But there's a problem. If Bush takes any military action against Saddam, it will be a tacit admission that Desert Storm was "a triumph without a victory" (translation, a failure), and it will have to be done over again and done right.

Another critical election issue is abortion. California, which will be the key state in the election, is definitely "free choice". And the women's vote here will be big. I think there's a good chance that the abortion issue could swing the state of California -- against Bush. The latest California Poll indicated for the first time more Californians view Bush's performance negatively than positively and fewer than 50% would vote for Bush again.

* *

What did that little mess with the Treasury notes cost Salomon Brothers Inc.? Legal experts say that the final bill, including fines and damages, could reach half a billion dollars. No wonder Warren Buffett (who has a huge investment in Salomon) rushed in from Omaha to take over as Salomon's new (even if temporary) CEO.

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You really want to lose weight? Studies show that most diets don't work, or if they do -- they work for a while, and then the weight

tends to come back. Current thinking -- cut out the fats and push up the exercise. Furthermore, stay off the fats permanently -- as a way of life. You can eat normal amounts without starving yourself if you just cut out those fats. There is one diet that I found takes off the weight (at least it does for me). And that's eating nothing but fruit in the morning up to 12AM. You can eat all the fruit you want, but nothing else. However, you still should avoid fats. Increasingly, the supermarkets are carrying an assortment of non-fat foods. By the way, don't go for "low fat," stick to "non-fat." Low fat can mean almost anything, but non-fat means what it says -- NO FAT.

* *

Steinway & Sons, the time-honored manufacturers of great pianos, has announced that it will be coming out with a new lower-priced, competitive line of pianos (median price $10,000). The new pianos will be built in Japan by the Kawai company. Why can't Steinway build them here, I ask myself? And then a voice says, "Don't ask."

* *

Speaking of Japan, it turns out that their massive buying of US assets didn't turn out that well after all. From 1986 to 1990, according to *Japan M&A Reporter,* Japan made 670 deals for US assets which added up to $47 billion, including $13.9 billion in 1989 alone. But during that period events were going along great guns for Japan. The yen doubled in value, Tokyo real estate quintupled, and their stock market tripled, their economy grew at the rate of 5% a year, there was little inflation and interest rates held at around 4%. Japan was swimming in liquidity, and they drove prices up around the world from art to real estate to stocks. Then came the stock market collapse (the Nikkei is down around 46% from its high). And the troubles began.

In 1991 bad debts in Japan were up 308% from 1990, and 10,723 corporations failed. Said an analyst at *Tokyo Commerce and Industry Research,* "The amount of debt per bankruptcy was enormous. Tiny firms went under with huge debts that were totally out of proportion to their business scale."

In 1990 Japanese purchases of US assets were $11.9 billion. In 1991 Japanese purchases of US assets collapsed to $3.8 billion. Furthermore, it turned out that the Japanese had loaded up at the TOP of the market. From million dollar art to Pebble Beach in California to Rockefeller Center in NYC to commercial real estate in downtown LA, the story was the same -- huge losses. So it remains to be seen whether the Japanese were wise or stupid to load up with assets at the top. My opinion -- it will require a major extension of the bull market to bail Japanese investors out of the assets they bought during the so-called "Bubble Economy" of the 1980s and early '90s.

This is very significant: in 1991 Japan's exports to Asia totaled $103 billion,finally surging past their exports to the US which were $91 billion. And the spread continues to widen in favor of Asia. This means that Japan will depend less and less on the US for its exports. Result: watch Japan toughen its stance towards any US demands -- it's happening already.

* *

Taiwan's people know how to work, and they know how to make what the world wants. So the island has become an exporting maniac. Result -- Taiwan now has the largest foreign exchange reserves in the world. Holding mainly marks, dollars and yen, Taiwan had reserves of $72.4 billion at the end of 1990. Its huge currency reserves draw interest at 100 major banks in the US, Japan and Europe. Taiwan has also become a major investor on the world scene. In 1990 Taiwan passed Japan as Maylasia's No. 1 investor with an estimated $2.3 billion. Taiwan also lead the race in Indochina, having invested over half a billion dollars in Vietnam in the last few years. In the last five years the Taiwanese dollar has appreciated 40% against the US dollar. Russell comment: If a nation wants to get rich, it sells to the world at a profit. Same thing goes for a company, for that matter. The US used to be the world's best at doing just that, but not any more. Note: a nation does not get rich selling services to itself.

Russell opinion: The two hottest economies in the world today are Singapore and Taiwan and for a third try Hong Kong.

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How expensive is it overseas? A subscriber writes that it costs him as much in pounds to buy an item in England as it costs here in dollars. In other words, if a shirt cost $40 in the US, he paid 40 pounds for a comparable shirt in London. A pound is around $1.82. Conclusion -- the dollar is no great shakes, but it's all we've got -- do your traveling in the US this year.

* *

The Cincinnati Reds agreed to pay Barry Larkin $25.6 million over the next five years or better than $5 million a year. But that only makes Larkin the sixth highest paid baseball player. Making more are Bobby Bonilla ($5.8 million), Jack Morris($5.4 million),Roger Clemens ($5.38 million), Dwight Gooden ($5.15 million), and Danny Tartabull ($5.1 million). Meanwhile, CBS lost $400 million last year on sports. Half of baseball's income comes from TV, so how long can these sports salaries continue? It's an interesting question.

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Here's more on the coming Mall of America due to open in Bloomington, Minn. in August. The monster mall will cover 4.2 million square feet and be the biggest mall in the US (surpassed only by the 5.2 million square feet West Edmonton mall in Canada). The Mall of America will be anchored in its four corners by Bloomingdale's, Nordstrom, Macy's and Sears. It will have a seven-acre amusement park with 26 rides and attractions and a full-sized roller coaster. It will also have a 1.2 million gallon aquarium consisting of a 300-foot tunnel simulating undersea life from Minnesota to the Caribbean. There will be 400 stores, 30 restaurants, 14 movie theaters, nightclubs, comedy clubs, day-care facilities and parking for over 12,000 cars. The Mall of America will be over a million square feet bigger than the other huge US malls such as 3 million feet Del Amo Fashion Center in California, the 2.8 million feet Galleria in Houston, and the 2.5 million feet Lakewood Center Mall in California or the 2.5 million feet King of Prussia Center in Philly.

* *

Retailers are getting rough. Wal-Mart now says that it will no longer deal with agents, they will deal only directly with the companies themselves (and Wal-Mart has the clout to do it). Now comes word that Swanson's Chrysler/Plymouth dealer in St. Petersburg, Florida, has fired all its salesmen, and four managers do all the selling (I guess minus the commissions). For the first 10 days in January they state that their sales are up 400%, prompting media from all over the nation to ask them for more news about their drastic actions.

* *

California finally passed a motorcycle helmet law, and now the state's 850,000 registered cycle riders have to wear a lid or pay a first-time fine of $100. This has set off a huge demand for helmets, but ironically helmets (a big business in the 1970s) are no longer manufactured in the US. Reason -- manufacturers couldn't take the law suits and liability involved with selling cycle helmets (US Bell sells helmets, but they are manufactured overseas). Harley's line of helmets are made in a new factory in Italy.

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Mexico is tired of inflation. The peso is now priced at 3,060 to the dollar, and it takes thousands of pesos to buy a cup of coffee. Now the Mexican treasury states that it intends to knock three zeros off the face value of the peso, but that won't take place for 18 to 24 months when (it is hoped) inflation will be lower.

* *

There seems to be a two-tier inflation, one for the older people and one for the younger set. If you're young and buying TV sets, VCRs, CDs, cars, or even a home and you shop in KMart or Wal-Mart, it may seem to you that inflation is minimal today. But if you're older and you've got sizeable medical bills, you're out getting hair cut or going to a movie or going to a dry cleaning establishment or getting your shoes repaired you know that inflation is still here. Furthermore, there's a second squeeze on. Your taxes (from all sources) are rising while the return on your savings has fallen in half, and the interest you pay on your credit cards is still sky-high. So you eat out less, you comparative shop

'til you drop, and you try to beat the system (the system being creeping inflation, even if the official government statistics tell you that there's little or no inflation in America).

* *

Some people are calling George Bush the "Regulation President." The growing list of new government regulations have become such a pain to business and there have been so many complaints that Bush has announced that he wants a moratorium on agency regulation for a period of six months or more. Maybe we need a new government agency to regulate the regulators.

* *

I just received an application from the city of Spokane saying that since I did business in Spokane I have to take out a business license. I called Spokane and explained to them that I publish a report out of San Diego, and that my Letter goes to cities throughout the US and the world. I explained to them that if I had to take out a business license in every city that I send my Letter to, I'd be broke and that furthermore, my office would spend half its time filling out business license forms. The people told me that they didn't know or care about other cities, but Spokane demands that anyone selling anything to Spokane needs a business license. Madness?

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This from one of my favorite financial columnists, Malcolm Berko, "If you owe the bank $100,000 and you can't pay, you're in trouble. If you owe the bank a million dollars, the bank's in trouble. If you owe the bank a billion dollars, the system's in trouble. And that's where we are now. But not to fear. There's a painless solution called inflation. Sometime this year the administration may instruct the Fed to open the flood gates to the money supply. And a devalued dollar will cause real estate prices to rise and rescue the banks." Russell comment: Sounds right, Malcolm, but there's a problem. If the Fed opts for inflation, then the bond market will collapse, and interest rates will soar. And real estate won't like that -- to put it mildly.

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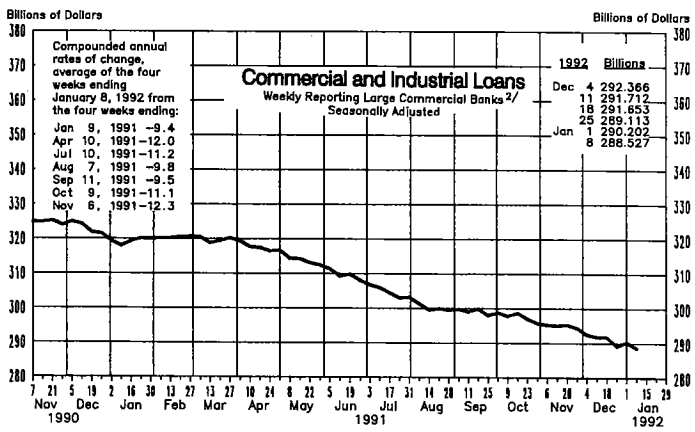
The Fed may be flooding the banks with liquidity, but the banks aren't making the loans. You can't believe it? Here's a chart right from the latest weekly mailing of the Federal Reserve Bank of St. Louis. I don't see any pick up in loans here, do you (and if loans don't pick up, the money supply doesn't pick up)?


Billions of Dollars
Billions of Dollars
Compounded annual rates of change, average of the four weeks ending January 8, 1992 from the four weeks ending:
Jan 9, 1991 -9.4
Apr 10, 1991 -12.0
Jul 10, 1991 -11.2
Aug 7, 1991 -9.8
Sep 11, 1991 -9.5
Oct 9, 1991 -11.1
Nov 6, 1991 -12.3
Commercial and Industrial Loans
Weekly Reporting Large Commercial Banks 2/
Seasonally Adjusted
1992 Billions
Dec 4 292.366
11 291.712
18 291.653
25 289.113
Jan 1 290.202
8 288.527
Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan
1990
1991
1992

* *

Recession Damage: So far in 1992 there have been 38,412 job cuts or a record 2,743 job cuts each business day. At the current rate 700,000 jobs will be lost this year. This recession is seeing the first mass white collar job losses since the Great Depression . . . For every 1% drop in short-term rates, people over 65 lose $14 billion in income. . . Home building in 1991 sank to a 46-year low as new homes and apartments totaled only 1.015 million . . . The Pentagon initiative would freeze virtually all future arms programs after the research and engineering stage. The plan, which will be unveiled when the Pentagon submits its '93 budget this month would save billions of dollars -- it would also be a disaster for Southern California . . . Item: The La Jolla Debutante commiteee has cancelled its 1992 debutante ball. "The recession has done us in," announced its president.

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Seen on a bumper sticker here in La Jolla: "Saddam Hussein still has his job -- do you?"

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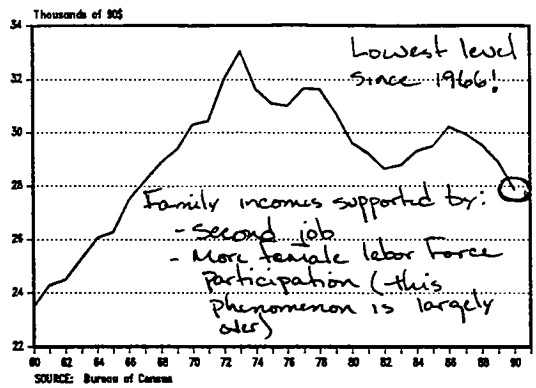
I thought this chart from a Merrill Lynch study was very significant. Here we see adjusted Earnings of Full-Time Male Workers in the US dropping to the lowest level since 1966. So what did families do in an effort to keep up their standard of living? The wives went to work. But the benefits of the women working, says Merrill, "is largely over," meaning that even with wives working the US consumer is still being squeezed. What next, do Americans put their children to work?

Earnings of Full-Time Male Workers

Annual Inflation-Adjusted Earnings

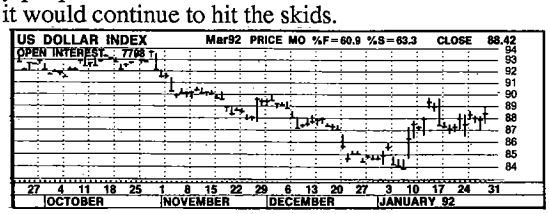

Thousands of 1985
Lowest level since 1966!
Family incomes supported by:
- Second job
- More female labor force participation (this phenomenon is largely over)
SOURCE: Bureau of Census

* *

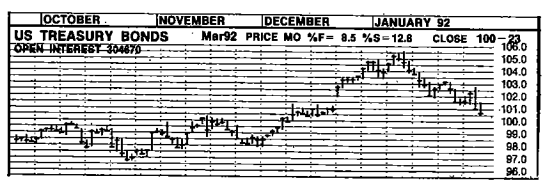
TransWorld Airlines has filed for bankruptcy, the sixth airline to do so. The wife of one of our good friends has been flying for TWA for many years. And aside from her job, I can tell you what she's worried about --her pension!

CHARTS & COMMENTS: Several times recently the Fed has intervened in the foreign exchange (FOREX) market to knock the dollar down. Why would they do such a dastardly thing? The reason, ostensibly, is to keep the dollar cheap in order to stimulate US exports. Believe it, goods are cheap in the US. Last week I received a letter from a subscriber in England. He writes, "As an American living in Europe, I can tell you from the other direction -- USA is a bargain. My wife and I couldn't stop buying when we were in the US over Christmas because things were so cheap compared to here. If you've chosen to live within your income and not be in debt, times are still good in the US compared with the rest of the world even though the US is suffering 'bad' times."

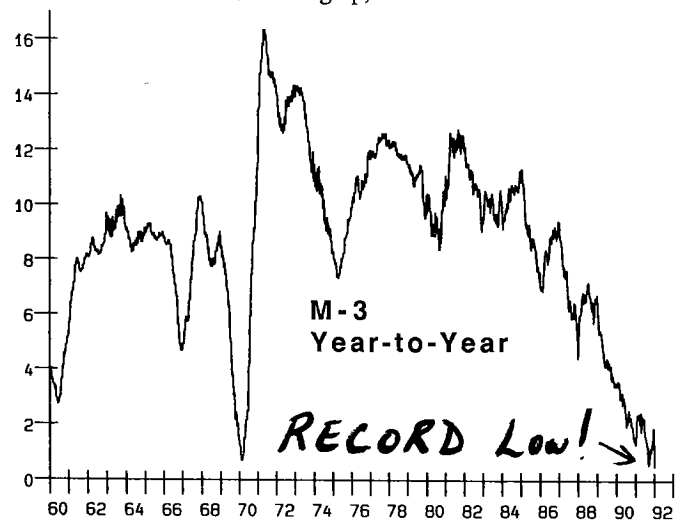
This chart (courtesy of *Investor's Business Daily*) tells me that despite the Fed's intervention, the dollar "wants to go up." The buck's evidently too cheap, and too oversold. Furthermore, too many people have climbed onto the short side of the dollar, betting that it would continue to hit the skids.



The Bonds -- I said in the last Letter that I felt the bonds had topped out, and I still feel that way. This chart shows the bonds sliding well off their recent highs, and at current prices the yield on the 30-year bond is back to 7.75%. Evidently the Fed has been buying the long bonds in an attempt to hold them up and to keep long interest rates from climbing, but as you know, the prevailing trend is more powerful than all the manipulations of the Fed and the Treasury combined.



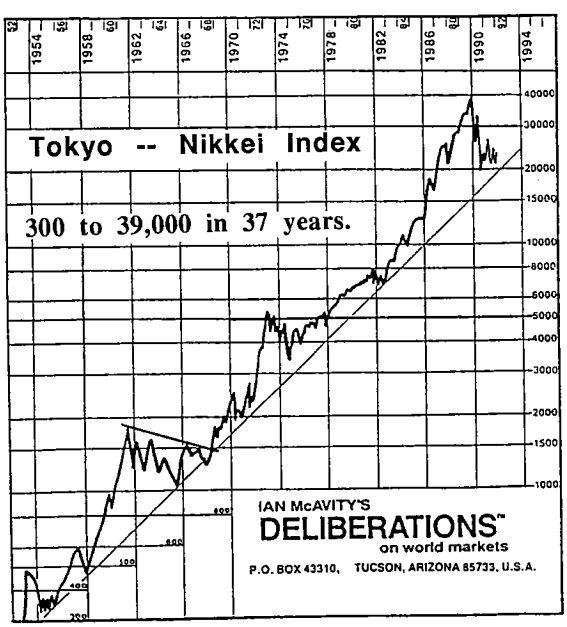
From the weekly mailings of economist Ed Hyman (*ISI Group*) note this chart of the widely-watched M-3 money supply (year-to-year comparison). As noted by Mr. Hyman, the ratio is at a record low. Historically, M-3 has a very close correlation to the economy -- so if M-3 doesn't start moving up, mmm.



I run the McClellan and Summation Indices using the daily advances and declines on the NYSE Bonds. I got a sell signal on these studies on January 24, confirming my feeling that bonds have topped out.

JAPAN: I talked about Japan and its Nikkei 225 average in the last Letter (and in a number of previous Letters, for that matter). I stated that if the Nikkei drops under 20,000, that would spell trouble. Why? For one thing, Japanese banks are allowed to count 45% of unrealized (get this, unrealized) portfolio gains as part of their capital. If the Nikkei drops below 20,000, many Japanese stocks will have suffered drastic losses, and the capital ratios of many Japanese banks will fall below minimum international standards. If that happens, bank loans will be severely curtailed (actually, they already have been cut back drastically), and many banks will be forced to liquidate securities.

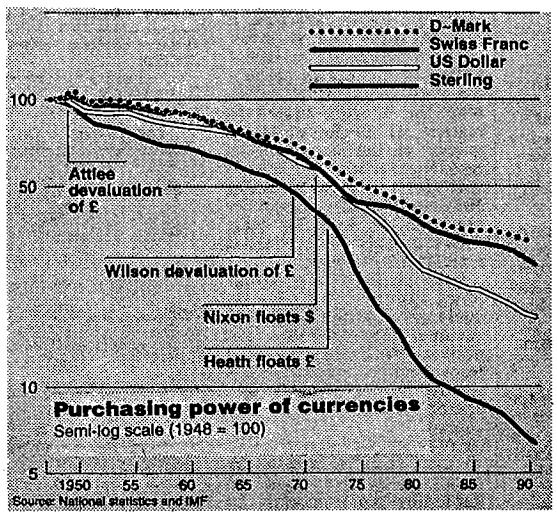
There's another reason why the 20,000 level of the Nikkei is important, and it's shown on this chart by my old friend, Ian McAvity. Note the rising bullish trendline, a trendline that had held all declines going back to the 1950s. A drop decisively below 20,000 by the Nikkei would violate this trendline. If that happens, a 40-year rate-of-growth would be reversed.



NEXT MAILING: Feb. 19

GOLD: Why own any gold? It pays no interest, it hasn't done anything profitable for years, it's a pain in the neck to keep, and all the politicians hate it.

On the other hand, currencies pay interest. So why not own currencies? This chart from the *London Financial Times* is interesting. And it tells a story. The story is that all paper (fiat) currencies lose purchasing power over time. Some currencies lose purchasing power faster than others, but ultimately, they all become museum pieces.



Already, US inflation rates are pushing 4%, and we're still in recession. Furthermore, the Fed is doing its damnedest to re-inflate the US economy. Why? The main reason is real estate and the debt. Slumping real estate values have put the US (and particularly its home owners and its banks) in a deep freeze. And sky-high levels of debt are killing the government, US corporations and consumers. The government's prescription: inflation.

Is that why gold, despite the deflationary pressure of the last few years, refuses to break below 350? My answer is yes. My answer is that large investment interests know that the US government wants "managed inflation," and that sooner or later we must "inflate or die." Large investors are betting on inflation, which is why they are willing to buy gold at above 350 even while everyone "hates" gold, and even when everyone says that "inflation is dead."

These people know that inflation is not dead. Not while the federal debt runs up at the rate of over one billion dollars a day. Think about this and study the chart before you sell your gold.

LATE NOTES: Listening to CNBC and Channel 22 (the business channel out of LA), I hear dozens of opinions on the market every day. What are they saying now? Well, there seems to be some talk of "a correction," but I don't hear any talk at all about the possibility of a primary bear market.

Remember: (1) this bull market is now 17 years old, (2) the yield on the Dow last week was down to 2.80, (3) the P/E ratio on the Dow was 50, (4) the P/E on the Transportation Average was infinity (because that Average had negative earnings), (5) there has been massive public participation in the market, (6) we have just had a non-confirmation in the Averages in that the Dow went to a new high unconfirmed by the Transports.

A primary bear market is a rare occurrence, but bear markets do occur -- and they appear when least expected and when the greatest number of people are the least prepared for one.

Now I'm not saying that a bear market has started (I don't have nearly enough evidence yet), but let me put it this way -- if, in a year from now, the Dow was down at 1600, we could look back to January-February, 1992, and say, "Gad, how could we have missed it? All the elements of a major bull market top were staring us in the face. Were we dreaming or what?"

And that's the way it goes in this toughest of all tough games.